Project Homekey – Controller Update/Proposal
December 2, 2020

Background

Our most recent HHH review recommended that the City should pursue alternate development strategies—namely acquisition and rehabilitation of existing buildings, hotels, motels, or unused commercial space. **The underlying premise was that this approach would likely be less expensive and could put desperately needed units of interim/supportive housing into service must faster than current HHH project timelines.** In comments to the LA Times following the release of our report, HCID's General Manager cautioned that this approach was unproven, "…everyone thinks motels are lower cost, but there haven't been that many models going through…"

Because so few of the projects currently in the HHH pipeline utilize an adaptive reuse approach, we justified our recommendation with the following.

- Construction costs—especially prevailing wages for labor—comprise between **55 and 60 percent** of development costs of projects in the HHH pipeline. Therefore, reducing the amount of construction required should likely lower overall project/unit costs.
- **CalMatters obtained data from the California Hotel & Lodging Association that showed smaller hotel/motel properties in Los Angeles County may cost significantly less than current HHH projects**, but would likely require additional time and money before they could be converted into supportive housing.
- The United States Government Accountability Office (GAO) analyzed affordable housing projects completed between 2011 and 2015 which were funded with one of the federal tax credits available through the Low Income Housing Tax Credit Program (LIHTC) program. **The study found that median per unit development costs were lower in rehabilitation projects compared to new construction.** This trend appeared across a range of locations, including New York City, Chicago, and California.

Recent developments appear to further underscore the time/cost savings of this approach.

Project Homekey

At the time we issued our HHH report, the State launched its Project Homekey program and began soliciting applications from local jurisdictions seeking to acquire/rehab existing buildings and converting them into interim/supportive housing. The program primarily utilizes emergency COVID funding from the federal government—most which must be spent by the end of the calendar year—and requires local jurisdictions to partially match any funds that are awarded by the State.

The program provides up to $200,000 per unit for acquisition costs, with the first $100,000 not requiring a local match; the next $50,000 requiring a one-for-one match; and the last $50,000

requiring a two-for-one match. Therefore, any project needing the full $200,000 is required to demonstrate a local match equal to $150,000.

The City designated the Housing Authority of the City of Los Angeles (HACLA) to lead this effort. Specifically, HACLA is tasked with acquiring properties on behalf of the City, which thereafter would be transferred to a qualified service provider/owner/operator selected by the City through a competitive Request for Proposals (RFP). The City will place a Deed of Trust and a Regulatory Agreement on the property to ensure the City's control over the use of the site. **Because the funds are part of the federal government's emergency pandemic response, the City Attorney advised that the City prioritize properties that can be substantially occupied within 90 days of acquisition.**

HACLA is seeking to acquire **ten** properties on the City's behalf using City funds and funds from Project Homekey. All of these properties are motels/hotels that will be operated as interim housing and then eventually converted to permanent supportive housing <CONFIRM>— meaning that additional costs will be incurred. **Our review of the available information (which doesn't include rehabilitation/conversion costs) shows that these projects have significantly lower per-unit costs compared to housing being developed through the HHH pipeline ($531k).**

Site Name	Council District	Units	Homekey Match (as of 10/15)	City Match/ Closing Costs (as of 10/21)	Estimated Total Cost	Estimated Cost Per Door
Solaire Hotel	1	91	$13,761,186	$4,750,728	$18,511,914	$203,428
Howard Johnson	3	75	$11,967,223	$5,016,703	$16,983,926	$226,452
EC Motel	8	31	$4,311,365	$1,256,824	$5,568,189	$179,619
Econo Motor Inn	6	59	$8,484,998	$2,507,624	$10,992,622	$186,316
Titta's Inn	14	49	$6,885,656	$1,979,294	$8,864,950	$180,917
Best Inn	10	23	$3,155,043	$949,920	$4,104,963	$178,477
The Nest	13	41	$5,764,217	$1,679,895	$7,444,112	$181,564
Panorama Inn	6	51	$7,674,492	$2,889,514	$10,564,006	$207,137
*Travelodge1**	*12*	*76*	***On Waitlist***		*$15,812,350*	*$208,057*
Travelodge2	15	40	$6,518,426	$2,756,574	$9,275,000	$231,875
TOTAL		**536**			**$108,122,032**	$201,720

HACLA is also seeking to directly acquire **five** properties using its own funds. **Two** of the properties (Martel and Parthenia) are existing multifamily buildings and the remaining are hotels/motels which will be converted to supportive units <CONFIRM>. **Although rehabilitation/conversion costs are not included in the analysis, the per unit costs of these properties remain significantly lower than the projects in the HHH development pipeline.**

Site Name	Council District	Units	Homekey Match (as of 10/15)	HACLA Match/ Closing Costs (as of 10/15)	Estimated Total Cost	Estimated Cost Per Door
NOHO Best Western	2	70	$13,061,816	$7,938,184	$21,000,000	$300,000
Super 8 Canoga Park	3	52	$8,257,350	$3,514,701	$11,772,051	$226,386
Martel	4	11	$2,200,000	$2,275,000	$4,475,000	$406,818
Parthenia	6	41	$8,200,000	$8,200,000	$16,400,000	$400,000
Orchid Suites	13	40	$8,000,000	$8,103,951	$16,103,951	$402,599
TOTAL		**214**			**$69,751,002**	$325,939

These preliminary estimates raise important questions given the slow progress and high costs associated with HHH. **Because nearly all of the properties listed above will initially function as interim housing, it is not clear whether we can make a one-to-one comparison with the costs/timelines associated with projects in the HHH development pipeline. However, the significant gap suggests that this strategy is superior to the conventional approach.**

Additional Questions/Considerations

- How much does the City estimate it will spend in initial rehabilitation costs?
- Will all of these units be converted into supportive/affordable housing? What are the estimated timelines and costs for these conversions?
- How were the properties identified and is there a viable pool of additional properties that should be evaluated and pursued?
- Part of the reason these projects came together so quickly was the large infusion of available capital from the State rather than financing using tax credits – is it possible for the City to replicate these efforts using HHH funds? Would the State or other entities provide the required gap funding (using cash rather than tax credits)?
- Currently, the City's per-unit contribution for HHH projects is approximately $144k – would we support spending approximately $200k+ per unit in HHH funds if it meant we could acquire properties and put them into service much faster than the 4-6 year HHH timeline?
- It appears that part of the reason these projects are coming online so quickly is that they're exempt from various environmental/zoning reviews due to the Governor's emergency declaration – how less advantageous does this approach become without these exemptions?

Potential Next Steps

Further explore the issues/questions listed above, as well as any others that arise, and determine whether we should develop a data story or brief report/advisory that connects these developments to the recommendation from our recent HHH audit.